

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02

PA-01 PRS-01 USIA-06 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 JUSE-00 SAM-01

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R 201057Z JUN 75

FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 3987

INFO AMEMBASSY ALGIERS

RUFHOHOXAMEMBASSY BONN 0081

AMEMBASSY DAKAR

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY PARIS

AMEMBASSY RABAT

C O N F I D E N T I A L NOUAKCHOTT 1249

E.O. 11652: GDS

TAGS: EFIN ENIV EMIN MR FR UK

SUBJECT: MIFERMA NATIONALIZATION: GIRM LAUNCHES CAMPAIGN TO
REASSURE USG OF ITS HONORARY INTENTIONS

REF: NOUAKCHOTT 903 (NOTAL)

1. SUMMARY: TWO SENIOR MAURITANIAN OFFICIALSHAVE MADE POINT IN
RECENT DAYS TO ASSURE AMBASSADOR THAT MAURITANIAN GOVERNMENT
HAS EVERY INTENTION OF PAYING SHAREHOLDERS OF MIFDRMA FAIR
COMPENSATION FOR IRON MINIG OPERATION NATIONALIZED BY GIRMI
LAST NOVEMBER. RZUB FOR GIRM CAMPAIGN ARE NOT RPT NOT
CLEAR, BUT FACT THAT CONCERTED EFFORT IS NOW UNDERWAY WAS
EXPLICITLY STATED BY SECOND INTERLOCUTOR. END SUMMARY

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2. FOREIGN MINISTER MOUKNASS TOOSOCCASION OF MEETING

JUNE 13 ON DISTANTLY RELATED TOPIC TO EXPRESS FORMAL GIRM APPRECIATION FOR USG'S QUIET ACCEPTANCE OF MIFERMA NATIONALIZATION. MOUKNASS DECLARED GIRM IS VERY MUCH AWARE OF US DISTASTE FOR NATIONALIZATION AS TOOL OF NATIONAL ECONOMIC IBLIPPZN AND WAS CONSEQUENTLY ESPECIALLY APPRECIATE OF "UNDERSTANDING" SHOWN BY US DURING PAST SEVEN MONTHS. (HE ALSO NOTED FRENCH GOVERNMENT HAD IN LIKE FASHION DEMONSTRATED MMAT WELCOME UNDERSTANDING AND CALM ACCEPTANCE FOR WHICH GIRM WAS EQUALLY GRATEFWL.) MINISTER THEN DECLARED GIRM INTENDS TO PAY MIFERMA SHAREHOLDERS FULL COMPENSATION AND WILL NOT CONSIDER PROBLEM TO BE FULLY RESOLVED UNTIL SHAREHOLDERS ARE SATISFIED WITH OUTCOME. (DISCUSSION OF MIFERMA FLOWED FROM MOUKNASS' ASSERTION THAT SPANISH PHOSPHATE ENTREPRENEURS COULD REST ASSURED THEYSHOULD RECEIVE FULL COMPENSATION SHOULD SITUATION DEVELOP ALONG THAT PATH BECAUSE THAT WAS WAY MAURITANIAN GOVERNMENT OPERATED.)

3. AHMED OULD DADDAH, GOVERNOR OF CENTRAL BANK (AND HALF BROTHER OF PRESIDENT) TOOK OCCASION OF AMBASSADOR'S INITIAL COURTESY CALL TO RAISE MIFERMA COMPENSATION QUESTION, OBSERVING HE WAS SURE THAT ANUMBER OF OTHER SENIOR GIRM OFFICIALS HAD RAISED OR WOULD BE RAISING MATTER WITH ME IN NEXT COUPLE OF WEEKS. GOVERNOR REHEARSED STANDARD LIST OF COMPLAINTS WHICH YOUTHFUL NATIONALISTS HAD AGAINST MIFERMA AND WHICH THEY USE TO JUSTIFY TERMINATION OF

FOREIGN RUN IMPERIUM IN IMPERIO. HE NOTED US OPPOSITION TO NATIONALIZATION ROUTE WAS WEELL KNOWN AND WISHED TO ASSURE ME AND USG THAT GIRM INTENDS TO PAY REASONABLE COMPENSATION TO MIFERMA SHAREHOLDERS. OULD DADDAH NOTED THAT GIRM WAS SHARPLY AWARE OF POTENTIAL ADVERSE IMPACT OF COMPNSATION QUESTION ON ITS STANDING IN INTERNATIONAL BUSINESS AND FINANCIAL COMMUNITIES, AND WAS CONCERNED THAT ITS REPUTATION AS A GOOD PLACE FOR PRIVATE INVESTMENT NOT BE DESTROYED OR DAMAGED. CENTRAL BANK GOVERNOR, HOWEVER, WAS CLEARLY CONCERNED ABOUT BROAD QUESTION OF OVERALL IMPACT ON GIRM INTERNATIONAL POSITION AND FOREIGN POLICY OBJECTIVES THAN HE WAS IN SPECIFIC PROVISIONS OF NEGOTIATED COMPENSATION SETTLEMENT. CONFIDENTIAL

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HE WAS ALSO MUCH LESS SYMPATHETIC TO MIFERMA AND ITS EXECUTIVES OR INCLINED TO CREDIT THEM WITH GOOD INTENTIONS THAN FOREIGN MINISTER. OULD DADDAH OUTLINED TWO SPECIFIC AREAS OF DISPUTE BETWEEN GIRM AND MIFERMA NEGOTIATORS. FIRST--MIFERMA NOW REFUSED TO ACCEPT VALUATION OF WORTH OF BUSINESS WHICH ITS OWN ACCOUNTANTS HAD CALCULATED AND WHICH MINING FIRM'S INCOME TAXES HAD BEEN COMPUTED FOR PAST TWELVE YEARS. GIRM BELIEVES EVALUATION WAS FAR TOO

LOW AND TAXES IT ACTUALLY RECEIVED TOTALED FAR LESS THAN AMOUNT IT SHOULD HAVE GOTTEN. BUT GIRM WAS PREPARED TO LEAVE THAT CHAPTER CLOSED. MIFERMA, HOWEVER, IS NOW INSISTING THAT TAX BASE EVALUATION IS FAR TOO LOW AND EVALUATION FOR COMPENSATION PURPOSES SHOULD BE SIGNIFICANTLY HIGHER. GIRM'S POSITION, ACCORDING TO OULD DADDAH, IS THAT IF EVALUATION WAS GOOD ENOUGH FOR INCOME TAX PURPOSES FOR DOZEN YEARS, IT IS VALUATION WHICH MUST BE USED FOR COMPENSATION CALCULATIONS. OTHERWISE, HE IMPLIED, GIRM WILL INSIST ON GOING BACK AND RE-COMPUTING ALL INCOME TAXES PAID BY MIFERMA. SECOND--GIRM INSISTS THAT PERIOD FOR PAYMENT OF COMPENSATION SHOULD BE EQUAL TO REMAINING USEFUL LIFE OF PRESENT MINE, WHETHER TEN, TWELVE, OR FIFTEEN YEARS-MAURITANIANS ARGUE THAT SHAREHOLDERS HAD BEEN PREPARED TO ACCEPT SOME SPECIFIED RATE OF RETURN ON THEIR INVESTMENT OVER REMAINING LIFE OF MINE. GIRM IS PREPARED TO PAY INTEREST ON DECLINING BALANCE AT THAT RATE OVER AN EQUIVALENT PERIOD. IT INSISTS MIFERMA SHOULD BE NOT ONLY PREPARED BUT PLEASED TO ACCEPT THIS REPAYMENT FORMULA SINCE IT PRECISELY EQUALS RETURN ON CAPITAL WHICH HAD PREVIOUSLY SATISFIED SHAREHOLDERS. (THE ACCOUNTING INTRICACIES OF THE FIRST PROBLEM AREA WERE NONE TOO CLEAR, BUT I INTENTIONALLY REFRAINED FROM POSING ANY QUESTIONS OR COMMENTING ON THIS PORTION OF THE GOVERNOR'S PRESENTATION.)

4. IN RESPONSE TO OULD DADDAH'S OBSERVATIONS ON GENERAL TOPIC, I AGREED THAT NATIONALIZATION WAS NOT THE PREFERRED ONE OF EITHER US GOVERNMENT OR AMERICAN PRIVATE BUSINESS, BUT EMPHASIZED THAT USG RECOGNIZED RIGHT OF ANY SOVEREIGN GOVERNMENT TO NATIONALIZE ANY ECONOMIC ACTIVITY WITHIN ITS BORDERS. US INSISTS ONLY THAT NATIONALIZING GOVERNMENT MUST PAY ADEQUATE, EFFECTIVE, CONFIDENTIAL

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AND PROMPT COMPENSATION TO FORMER OWNERS. I CITED AS EXAMPLE FACT THAT US ACCEPTED EGYPT'S RIGHT TO NATIONALIZE SUEZ CANAL IN 1956, PARTICULARLY SINCE PRESIDENT NASSER HAD IN SAME SPEECH ENUNCIATED FORMULA FOR COMPENSATION OF CANAL SHAREHOLDERS. (IT WAS CLEAR THAT CANAL EXAMPLE CAME AS COMPLETE BUT PLEASANT SURPRISE TO OULD DADDAH WHO WAS PROBABLY SMALL BOY OF TEN AT TIME.) I THEN DECLARED THAT USG HAD NOTED WITH PARTICULAR INTEREST STATEMENT BY PRESIDENT OULD DADDAH IN NATIONALIZATION SPEECH THAT GIRM INTENDED TO PAY COMPENSATION FOR MIFERMA. I STATED THAT USG ACCEPTED THIS COMMITMENT BY HIGHEST AUTHORITY IN MAURITANIA AT FACE VALUE. IN VIEW OF THIS PRESIDENTIAL COMMITMENT, USG HAS NO BASIS FOR UNEASINESS. AS FINAL POINT, I NOTED THAT US SHAREHOLDER CLEARLY ACCEPTED PRESIDENTIAL COMMITMENT AT FACE VALUE AS WELL

AS US COMPANY HAD YET TO SIGNAL ANY DOUBT OR CONCERN
TO USG.

5. REASONS FOR GIRM REASSURANCE CAMPAIGN ARE NOT READILY
APPARENT. WE CAN ONLY SPECULATE THAT COMPENSATION
NEGOTIATIONS MAY BE APPROACHING CRUNCH, AND GIRM WANTS
TO INSURE CONTINUED USG "UNDERSTANDING".HANDYSIDE

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